

Message Text

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C O N F I D E N T I A L STATE 200768

EXDIS-MIL ADDEE HANDLE AS SPECAT EXCLUSIVE

FOR ASSISTANT SECRETARY ROGERS

FOLLOWING REPEAT FROM AMERICAN EMBASSY CARACAS 8703

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C O N F I D E N T I A L CARACAS 8703

EXDIS

NOFORN

FOR ASSISTANT SECRETARY ROGERS

EO 11652 GDS

TAGS: ENRG, VE

SUBJ: PETROLEUM REVERSION - CREOLE

REF: CARACAS 7399, CARACAS 8696

1. SUMMARY: ALTHOUGH PROGRESS HAS BEEN SLOWER THAN ANTICIPATED

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(REFTEL), THE PRESIDENT OF CREOLE REMAINS OPTIMISTIC. HE BELIEVES

AGREEMENT ON A PACKAGE ARRANGEMENT WITH THE GOV IS STILL IN SIGHT. NEGOTIATIONS ARE GOING FORWARD ACTIVELY. CREOLE'S OPTIMISM RESTS ON THE BELIEF THAT CARLOS ANDRES PEREZ KNOWS HE MUST HAVE THE COOPERATION OF THE MAJOR CONCESSIONAIRES TO OPERATE THE NATIONALIZED INDUSTRY EFFECTIVELY AND THAT HE WILL ULTIMATELY TAKE THE TOUGH DECISIONS ACCORDINGLY. END SUMMARY.

2. THE FOLLOWING IS PROPRIETARY INFO GIVEN TO ME IN CONFIDENCE AND NOT FOR DISCLOSURE TO THIRD PARTIES.

3. ROBERT DOLPH TOLD ME ON AUGUST 15 THAT HE BELIEVES THE "THREE LEGS" OF HIS PACKAGE (COMPENSATION, TECHNICAL SERVICES AGREEMENT AND PURCHASE COMMITMENTS) WILL BE IN PLACE BY MID-OCTOBER. HE STRESSED, HOWEVER, THAT ALL THREE MUST BE IN PLACE. CREOLE WILL ACCEPT NO PARTIAL ARRANGEMENTS, SUCH AS AGREEING TO THE GOV'S OFFER OF INDEMNITY WHILE LEAVING THE DETAILS OF PAYMENT FOR TECHNICAL SERVICES PENDING.

4. DOLPH SAID HE HAD EXPLAINED THIS PACKAGE APPROACH FRANKLY TO VALENTIN HERNANDEZ, NOTING FOR THE MINISTER'S BENEFIT THAT CREOLE HAS NOT CONTESTED THE CONCEPT OF COMPENSATION ON THE BASIS OF NET BOOK VALUE OR ATTEMPTED TO CLAIM FOR THE VALUE OF THE REMAINING YEARS OF THE CONCESSIONS. IN RETURN, HE TOLD THE MINISTER, HE EXPECTED A REALISTIC GOV ATTITUDE ON THE LEVEL OF PAYMENT FOR SERVICES. DOLPH REMARKED TO ME THAT THE WORD "COMPENSATION" WAS NEVER MENTIONED IN THIS LATTER CONTEXT, BUT CREOLE LOOKS ON THE PROSPECTIVE PROFIT FROM TECHNICAL SERVICES AS PARTIALLY CONSTITUTING COMPENSATION.

5. DOLPH SAID THAT CREOLE HAS NOW MADE SPECIFIC PROPOSALS WITH SPECIFIC FIGURES ON THE TECHNICAL SERVICES PACKAGE. AT THE WORKING LEVEL OF THE MINISTRY THE REACTION HAS BEEN CRITICAL OF THE PURPORTEDLY HIGH LEVEL OF CHARGES INVOLVED. DOLPH OBSERVED THAT SOME IN THE MINISTRY SEEM TO THINK THE COMPANIES SHOULD GET NO MORE FOR THEIR SERVICES THAN COST PLUS PERHAPS 10 PERCENT. THIS WOULD BE UNACCEPTABLE AND IT WAS DOLPH'S OPINION THAT THE MINISTER UNDERSTOOD SUCH TO BE THE REALITY.

6. WITH RESPECT TO STRAIGHT COMPENSATION, DOLPH SAID THERE HAD BEEN CONSIDERABLE DISCUSSION ABOUT THE BONDS TO BE OFFERED. HE

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HAS PRESSED FOR A MAXIMUM TERM OF FIVE YEARS, A REALISTIC INTEREST RATE AND/OR A SPECIAL FORM OF NEGOTIABILITY IN WHICH THE BONDS COULD BE USED RAPIDLY FOR THE GUARANTY DEPOSIT AND IN PAYMENT FOR OIL AND TAXES DUE. THE GOV HAS SO FAR COUNTERED THAT A FORMULA OF THIS KIND COULD REPRESENT A POLITICAL PROBLEM. ACCORDING TO DOLPH, THE MINISTER CONTINUES TO TALK ABOUT TEN-YEAR INSTRUMENTS WITH TAXABLE INTEREST OF SIX PERCENT. THE BONDS WOULD PRESUMABLY THUS BE CURRENTLY DISCOUNTABLE AT NO

BETTER THAN 40 PERCENT OF FACE VALUE. DOLPH SAID THAT AGAIN THE ACCEPTABILITY OF AN OFFER ALONG THESE LINES WOULD DEPEND ON THE OTHER ELEMENTS OF THE OVERALL PACKAGE.

7. DOLPH WAS RELATIVELY UNCONCERNED ABOUT SUCH OTHER POSSIBLE OBSTACLES AS THE SUIT BROUGHT AGAINST THE OIL COMPANIES BY LAWYERS FRONTING FOR THE FEDERATION OF PUBLIC ACCOUNTANTS (CARACAS 8681). HIS VIEW WAS THAT VALENTIN HERNANDEZ, ALFONZO RAVARD AND MOST ESPECIALLY THE PRESIDENT KNOW THEY MUST HAVE THE COOPERATION OF THE COMPANIES IF VENEZUELA'S OIL INDUSTRY IS TO CONTINUE SUSTAINING THE NATION. HE RECOGNIZED THAT POLITICAL ACCIDENTS COULD INTERVENE BUT THOUGHT THAT CARLOS ANDRES PEREZ WOULD ULTIMATELY TAKE THE DECISIONS NECESSARY TO ASSUME A SMOOTH TRANSITION AND AN EFFECTIVE FUTURE WORKING RELATIONSHIP BETWEEN THE COMPANIES AND THE NATIONALIZED INDUSTRY.
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